

Arizona Administrative Code
TITLE 2. ADMINISTRATION
CHAPTER 8. STATE RETIREMENT SYSTEM BOARD

Authority: A.R.S. § 38-701 et seq.

ARTICLE 2. STATE RETIREMENT
DEFINED CONTRIBUTION PROGRAM

Article 2, consisting of R2-8-201 through R2-8-207, made by final rulemaking at 10 A.A.R. 1962, effective May 4, 2004 (Supp. 04-2).

R2-8-201. Definitions

The following definitions apply to this Article unless otherwise specified:

1. "13th check" means the aggregated amount of the annual annuities awarded to a retired System member as the member's pro rata share of the excess surplus allocated by the Board for an increase in retirement benefits and distributed once a year to a retired System member or, upon election by the retired System member, to the retired System member's surviving beneficiary.
2. "14th check" means the aggregated amount of the annual annuities awarded to a retired System member as the retired System member's pro rata share of the excess surplus due to changes in the interest rate assumption and life expectancy table assumption, allocated by the Board for an increase in retirement benefits distributed once a year to the retired System member or, upon election by the retired System member, to the retired System member's beneficiary.
3. "Actuary" means an individual who is a Fellow of the Society of Actuaries, and is hired and directed by the Board to make actuarial calculations, determinations, valuations, experience studies, recommendations, and other actions directed by the Board.
4. "ASRS" means the same as in A.R.S. § 38-711.
5. "Beneficiary longevity reserve account" means the account established under Laws of 1953 and continued in Section 24 (B) of the Implementing Statute that is used to maintain benefits payable to retired System members and System members' beneficiaries.
6. "Board" means the same as in A.R.S. § 38-711.
7. "Employer" means the same as in A.R.S. § 38-711.
8. "Employer account" means that portion of a non-retired member's System retirement account that contains employer contributions, supplemental credits, and accumulated interest on employer contributions and supplemental credits.
9. "Employer contributions" means the same as in A.R.S. § 38-711.
10. "Excess surplus" means the funds in the beneficiary longevity reserve account that exceed the funded status range and that are subject to allocation by the Board as provided in R2-8-203(A)(3).
11. "Fiscal year" means the same as in A.R.S. § 38-711.
12. "Funded status" means the ratio, expressed as a percentage, of the actuarial value of assets for System members to the total liabilities of the System for future benefits.
13. "Guaranteed account balance" means all System member and employer contributions in a System member's retirement account, not including supplemental adjustments, plus the interest credited annually on those contributions.
14. "Guaranteed benefit" means the portion of a retired system member's or the retired System member's beneficiary's monthly benefit derived from the guaranteed account balance and calculated at the time of retirement.
15. "Implementing Statute" means Arizona Session Laws 1995, Chapter 32, Section 24, as amended by Arizona Session Laws 1999, Chapter 66, Section 1.
16. "Interest" means the assumed actuarial investment earnings rate approved by the Board.
17. "Market value" means an estimated monetary worth of an asset, based on the current demand for the asset and the amount of that type of asset that is available for sale.

18. "Member" means the same as in A.R.S. § 38-711.
19. "Member contributions" means the same as in A.R.S. § 38-711.
20. "Monthly benefit" means the annuitized payment of a retired System member's guaranteed and non-guaranteed account balances.
21. "Non-guaranteed account balance" means the sum of all supplemental adjustments and interest credited on those adjustments.
22. "Non-guaranteed benefit" means:
 - a. The portion of the monthly benefit derived from all supplemental adjustments and interest credited on those adjustments,
 - b. The 13th check, and
 - c. The 14th check
23. "Plan" means the same as "defined benefit plan" in A.R.S. § 38-769, and administered by the ASRS.
24. "Retirement account" means the same as in A.R.S. § 38-771.
25. "Supplemental adjustment" means the amount credited or debited to a non-retired system member's employer account or to a retired System member's non-guaranteed benefit as determined by Section 24 (B) of the Implementing Statute.
26. "System" means the same as "defined contribution plan" as defined in A.R.S. § 38-769, and which is administered by the ASRS.
27. "Total liabilities" means the amount needed to pay all System benefits.

Historical Note

New Section made by final rulemaking at 10 A.A.R. 1962, effective May 4, 2004 (Supp. 04-2).

R2-8-202. Actuarial Assumptions

The following actuarial assumptions apply to this Article:

1. The interest and investment yield rate is 8% per annum, compounded annually.
2. The mortality table used by ASRS (the "ASRS table") for benefit determination purposes is the generational table based on the 1994 Group Annuity Reserving Table projected with Scale AA Unisex 50% Male/50% Female, (the "1994 table"). The 1994 table is incorporated by reference as amended in subsection (3). For valuation purposes, the mortality rates in the ASRS table are reduced for members with annual annuities from the System in excess of \$14,400, as described in subsection (4).
3. The 1994 Table is published in the Transactions of the Society of Actuaries, Volume 47, Table 1, pages 866 and 867 and is hereby incorporated by reference, not including any future editions or amendments. The 1994 Table can be viewed at the Phoenix office of the ASRS during regular business hours, 3300 N. Central Ave., Phoenix, AZ 85012 and is available from the Society of Actuaries, 475 N. Martingale Road, Suite 600, Schaumburg, IL, 60173. The ASRS Table amends the 1994 Table as follows:
 - a. The ASRS Table converts the 1994 Table's sex-distinct mortality rates to sex-neutral mortality rates by adding 50% of the rate for males and 50% of the rate for females at each age.
 - b. The ASRS mortality rate for benefit determination purposes for a member age x in year y is the unisex rate of the published table for age x, projected to year y by the unisex projection scale AA in the 1994 Table.
4. For valuation purposes, the mortality rates are the same as those determined in subsection (3)(b), except that the mortality rates are reduced for members with annual annuities in excess of \$14,400. The reduction factors are:
 - a. 80% for a member age 0 through 75, and
 - b. 86% for a member age 75 or above.

Historical Note

New Section made by final rulemaking at 10 A.A.R. 1962, effective May 4, 2004 (Supp. 04-2).

Amended by emergency rulemaking at 10 A.A.R. 4259, effective September 30, 2004 (Supp. 04-3).

Section amended and Table 1 repealed by final rulemaking at 10 A.A.R. 4346, effective October 5, 2004 (Supp. 04-3).

Section amended and Table 1 repealed by final rulemaking at 13 A.A.R. 4581, effective February 2, 2008 (Supp. 07-4).

R2-8-203. Adjustment of Benefits for Retired System Members and Retired or Non-retired System Members' Beneficiaries under Section 24 (B)(3) of the Implementing Statute

A. The following actuarial methods apply:

1. The actuarial value of the assets of the System is equal to the market value of all System assets on the last day of each fiscal year;
2. The market value of the System assets is compared annually to the total liabilities, as of the last day of each fiscal year, including the amount necessary to fund the beneficiary longevity reserve account; and
3. A non-guaranteed benefit is not increased or decreased if the funded status is between 95% and 105%.

B. Benefits are reduced as follows:

1. The ASRS shall not reduce a retired System member's or a retired or non-retired System member's beneficiary's guaranteed benefit;
2. The ASRS shall reduce a retired System member's or a retired or non-retired System member's beneficiary's non-guaranteed benefit under this Section; and
3. The ASRS shall reduce a retired System member's or a retired or non-retired System member's beneficiary's non-guaranteed benefit if the funded status is less than 95%, by reducing the non-guaranteed benefit until the funded status equals 95%.

C. A retired system member's or a retired or non-retired System member's beneficiary's benefit is reduced as follows:

1. If the ASRS reduces the non-guaranteed benefit for a retired System member or retired or non-retired System member's beneficiary under this Article, ASRS shall reduce the non-guaranteed benefit using the same method used to distribute excess surpluses, as provided in Section 24 (B)(3) of the Implementing Statute.
2. The ASRS shall apply a negative supplemental adjustment to a retired System member's or the retired or non-retired System member's beneficiary's non-guaranteed benefit in the following order:
 - a. The 13th check, issued following the date of the valuation that determines the supplemental adjustment; and
 - b. The monthly benefit, applied by January 1 following the date of the valuation that determines the supplemental adjustment.
3. The ASRS shall use any remaining negative supplemental adjustment not applied to the retired System member's or the retired or non-retired System member's beneficiary's non-guaranteed benefit as an offset against future positive supplemental adjustments.

D. To restore a retired system member's non-guaranteed benefit after the ASRS has applied a negative supplemental adjustment under subsection (C), the ASRS shall apply a positive supplemental adjustment to a retired System member's non-guaranteed benefit in the following order:

1. The monthly benefit, applied by January 1 following the date of the valuation that determines the supplemental adjustment. The ASRS shall not apply more than the amount needed to offset previous negative supplemental adjustments; and
2. The 13th check, issued following the date of the valuation that determines the supplemental adjustment.

E. To restore a retired or non-retired System member's beneficiary's benefit after the ASRS has applied a negative supplemental adjustment under subsection (C), the ASRS shall apply a positive supplemental adjustment to a retired or non-retired System member's beneficiary's non-guaranteed benefit in the following order:

1. The monthly benefit, applied by January 1 following the date of the valuation that determines the supplemental adjustment. The ASRS shall not apply more than the amount needed to offset previous negative supplemental adjustments.
2. The 13th check, issued following the date of the valuation that determines the supplemental adjustment. The ASRS shall not apply more than the amount needed to offset previous negative supplemental adjustments.

Historical Note

New Section made by final rulemaking at 10 A.A.R. 1962, effective May 4, 2004 (Supp. 04-2).

R2-8-204. Adjustment of Non-guaranteed Account Balances for Non-retired System Members under Section 24 (B)(3) of the Implementing Statute

- A. The actuarial methods listed in R2-8-203(A) apply to non-retired members.
- B. If the ASRS reduces non-guaranteed account balances for non-retired System members under this Article, ASRS shall reduce non-guaranteed account balances using the same method as excess surpluses are credited, as provided in Section 24 (B)(3) of the Implementing Statute.
- C. Account balances are reduced as follows:
1. The ASRS shall not reduce a non-retired System member's guaranteed account balance,
 2. The ASRS shall reduce a non-retired System member's non-guaranteed account balance under this Section, and
 3. The ASRS shall reduce a non-retired System member's non-guaranteed account balance if the funded status is less than 95% by reducing the non-guaranteed account until the funded status equals 95%.

Historical Note

New Section made by final rulemaking at 10 A.A.R. 1962, effective May 4, 2004 (Supp. 04-2).

R2-8-205. Adjustment of Benefits under Section 24 (B)(4) of the Implementing Statute

If the Board elects to distribute gains and losses under Section 24 (B)(4) of the Implementing Statute:

1. Changes in the interest rate assumption or the life expectancy table assumption shall take effect on June 30 following approval of the change by the Board;
2. Gains are allocated to a retired System member's or the retired system member's beneficiary's 14th check, issued following the date of the valuation that determines the positive supplemental adjustment, and are distributed as provided in Section 24 (B)(4) of the Implementing Statute;
3. Losses are allocated to the extent previous gains on or after January 1, 1975 have been allocated using the method employed under this Section;
4. The actuarial methods listed in rule R2-8-203(A) apply to this Section;
5. Benefits are reduced as follows:
 - a. The ASRS shall not reduce a retired System member's or the retired System member's beneficiary's guaranteed benefit,
 - b. The ASRS shall reduce a retired System member's and the retired System member's beneficiary's non-guaranteed benefit under this Section, and
 - c. The ASRS shall reduce a retired System member's and a retired System member's beneficiary's non-guaranteed benefit if the funded status is less than 95%, by reducing the non-guaranteed benefit until the funded status equals 95%;
6. If the ASRS reduces the non-guaranteed benefit for a retired System member or the retired System member's beneficiary due to changes in the interest rate assumption or life expectancy table assumption, ASRS shall reduce the non-guaranteed benefit using the same method used to distribute excess surpluses, as provided in Section 24 (B)(4) of the Implementing Statute;
7. The ASRS shall apply a negative supplemental adjustment to a retired System member or the retired System member's beneficiary's 14th check, issued following the date of the valuation that determines the supplemental adjustment; and
8. The ASRS shall apply any remaining negative supplemental adjustment not applied to the retired System member's or the retired System member's beneficiary's 14th check, under R2-8-203.

Historical Note

New Section made by final rulemaking at 10 A.A.R. 1962, effective May 4, 2004 (Supp. 04-2).

R2-8-206. Benefit Increases under Sections 24 (B)(3) and (B)(4) of the Implementing Statute

If the funded status is more than 105%, the Board shall exercise its discretion under Sections 24 (B)(3) and (B)(4) of the Implementing Statute and as required in A.R.S. § 38-714(C) to determine whether to allocate excess surplus to the appropriate System members and System member's beneficiaries. In determining whether to allocate excess surplus, the Board shall consider all factors that affect the funded status or may affect the funded status in the future.

Historical Note

New Section made by final rulemaking at 10 A.A.R. 1962, effective May 4, 2004 (Supp. 04-2).

R2-8-207. Return of Contributions

- A. A System member who elects to receive a return of contributions under A.R.S. § 38-740 is paid as follows:
1. The ASRS shall pay the guaranteed portion of the account balance no sooner than 30 days after the member separates from service, unless earlier payment is otherwise authorized by law;
 2. The ASRS shall pay the non-guaranteed portion of the account balance upon completion of the actuarial valuation for the fiscal year end immediately before the date the member separates from service; and
 3. The ASRS shall pay the entire account balance no later than 90 days after the member separates from service.
- B. A non-retired member's beneficiary who qualifies for and elects a lump-sum payout under A.R.S. § 38-762, is paid as follows:
1. The ASRS shall pay the guaranteed portion of the account balance upon verification of the member's death and determination of the deceased member's guaranteed portion of the account balance,
 2. The ASRS shall pay the non-guaranteed portion of the account balance upon completion of the actuarial valuation for the fiscal year end immediately before the date of the member's death, and
 3. The ASRS shall pay the entire account balance no later than 90 days after the beneficiary requests the lump-sum payout.
- C. If the ASRS pays a partial lump sum to a System member at retirement, the proportion of the guaranteed to non-guaranteed funds the ASRS pays to the System member is equal to the proportion of guaranteed to non-guaranteed funds in the System member's entire account.

Historical Note

New Section made by final rulemaking at 10 A.A.R. 1962, effective May 4, 2004 (Supp. 04-2).